Financial Statements

Year Ended September 30, 2005

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.					
Local Government Type ☐ City ☐ Township ☐ Village ☑ Other	Local Government Nar Community Me	ental Health Author	ity of CEI	County Ingham	
Audit Date Opinion Date 9/30/05 12/13/05	Date	Accountant Report Submitted	to State:		
We have audited the financial statements of accordance with the Statements of the Gov Financial Statements for Counties and Local L	ernmental Accounting	Standards Board (GA	ASB) and the	Uniform Abos	orting Vision at fo
We affirm that:				MΔR	1 4 2006
We have complied with the Bulletin for the	Audits of Local Units of	of Government in Michig	gan as revised.	WIZAIN ,	¥ ¥ 2000
 We are certified public accountants registed. We further affirm the following. "Yes" response comments and recommendations 	•		ents, including t	LOCAL AUDIT he notes, or in	& FINANCE DI
You must check the applicable box for each ite	n below.				
Yes No 1. Certain component un	its/funds/agencies of t	ne local unit are exclude	ed from the fina	ncial stateme	ents.
Yes No 2. There are accumulate 275 of 1980).	ed deficits in one or m	ore of this unit's unres	erved fund bala	ances/retained	d earnings (P.A.
Yes No 3. There are instances amended).	of non-compliance wit	h the Uniform Account	ting and Budge	iting Act (P.A	2 of 1968, as
Yes No 4. The local unit has v requirements, or an o		of either an order issumergency Municipal Lo		Municipal Fin	nance Act or its
Yes No 5. The local unit holds as amended [MCL 12]		hich do not comply wi 2, as amended [MCL 3		uirements. (P	'.A. 20 of 1943,
Yes No 6. The local unit has been	n delinquent in distribu	ting tax revenues that v	vere collected fo	or another tax	dng unit.
Yes No 7. pension benefits (non	nal costs) in the curre	al requirement (Article nt year. If the plan is n ment, no contributions	nore than 100%	funded and	the overfunding
Yes No 8. The local unit uses of (MCL 129.241).	redit cards and has n	ot adopted an applical	ble policy as re	equired by P.,	A. 266 of 1995
Yes No 9. The local unit has not	adopted an investment	policy as required by P	P.A. 196 of 1997	(MCL 129.95	5) .
We have enclosed the following:			Enclosed I	To Be Forwarded	Not Required
The letter of comments and recommendations			✓		
Reports on individual federal financial assistar	ce programs (program	audits).			√
Single Audit Reports (ASLGU).			√		
Certified Public Accountant (Firm Name)		1			
BDO Seidman, LLP					
Street Address 211 East Water Street, Suite 300	_	City Kalamazoo	State MI		07
Accountant Signature	0	1	Date		6
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Independent Auditors' Report

Board of Directors Community Mental Health Authority of Clinton, Eaton, and Ingham Counties Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Authority, as of September 30, 2005, and the changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit preformed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on Pages 3 through 8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Combining and Individual Fund Statements and Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BDO Sadran, LLA

Certified Public Accountants

MANAGEMENT DISCUSSION AND ANALYSIS

As management and administrators of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), we offer readers of the Authority's financial statements this background information on our funding and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2005.

Funding Background

The Fiscal Control and Restraint of Constricted Public Funding

The Authority is one of the pre-eminent human service providers in the greater Lansing area and one of the most innovative community mental health authorities in the state. Over the last several years, the Authority has made a number of cost cutting changes and innovative revenue enhancements in order to balance its budget in the face of the following:

- Years without a funding increase from the state of Michigan or with very modest cost of living increases (far less than CPI or Health Care CPI). Given that state funding, in the form of state general fund and Medicaid dollars, consists of 80% of the Authority's budget, stagnant funding from the state has a disastrous impact on the Authority's budget.
- Increased costs in a number of areas which are typical of those experienced by employers throughout the country.

These cuts, taken over these last five years, have totaled approximately \$18 million (\$600,000 in fiscal year 2000, \$1.7 million in fiscal year 2001, \$4.6 million in fiscal year 2002, \$3.1 million in fiscal year 2003, and \$4.8 million in fiscal year 2004; and over \$2 million in fiscal year 2005) representing 26% of the Authority's annual budget and could have been avoided, in their entirety, through the provision of modest cost-of-living increases of 4 % annually over those years. The modest size of these cost increases are in sharp contrast to the increases experienced by other health care providers and health care insurers during the same period—increases ranging from 4.3% to 12.6%.

The Causes of Structural Deficits

In 1998, the Authority went from the fee-for-service system to a capitated arrangement (when the Authority became the care manager for the mental health benefit for Medicaid enrollees in the three county region). In such an arrangement, the Authority receives a payment for each Medicaid recipient living in the area covered by the Authority (thus, a "per capita" or capitated arrangement). This payment is actually a mental health care insurance premium and is designed to cover the cost of providing mental health care to those Medicaid recipients in need of such care. A similar arrangement, using a different formula, provides funding to the Authority to serve the non-Medicaid residents in the community. Under this arrangement, our revenue does not change when we serve more individuals or provide more care. It changes only when the number of Medicaid enrollees in the tri-county area changes.

This capitated arrangement, allowed by the federal government under a Medicaid waiver (1915b), stipulated that one of the aims of the system was to ensure that the cost of the system was marked by slow growth of 4% to 5% per year.

In the first year of the capitated system (fiscal year 1999), the Authority received a 2.7% increase in its capitation rates. Since that time, however, for five consecutive years, the rates have not increased, leaving the Authority with a revenue growth rate of 0.5% per year over these five years. This is in stark contrast to both the slow revenue growth goal of the waiver, 4% to 5% per annum, and all recognized measures of health care price increases during the period, which show health care cost increases ranging from 4.3% to 12.6% per year.

There are several measures of health care cost changes, against which the increases to the Michigan Community Mental Health system may be compared:

	•	Percent
		4.00
Α.	1998-1999 Health Services Producer Index (U.S.)	4.30
В.	1998-1999 Consumer Price Index for Medical Care Services, all urban consumers (U.S.)	8.73
C.	1998-1999 Consumer Price Index for Medical Care Services, Detroit-Ann Arbor, Flint	12.65

Prior to this switch to a capitated system, for nearly two decades, from the early 1980's through 1998, the community mental health system in Michigan received an ever-growing share of its funding via the federal Medicaid system on a fee-for-service basis. Such an arrangement allowed the revenue to community mental health systems to grow dramatically in two ways:

- Billing Medicaid for services allowed us to receive new federal Medicaid dollars by serving
 Medicaid recipients. We received approximately one federal dollar for every state dollar spent
 serving a Medicaid recipient. It is important to note that state funding, during an 18-year period,
 was not increased. The state funds used to match the federal dollars were those state funds
 already in our budget.
- The fee-for-service structure allowed us (and providers paid under a fee-for-service system) to receive additional funds if we provided more services.

Critical to understanding of this funding arrangement is the fact that this ability to draw down federal dollars and the fact the Authority assumed an increasing number of mental health responsibilities formerly held by the state (community placement of individuals formerly living in state hospitals, AIS homes, utilization management of and payment for local hospital care) were the only sources of revenue growth for the Authority over the last several decades. No new state dollars were added to the Authority over the past two decades.

The Aggressive, Proactive, and Responsive Actions to Counter Impact Constricted Revenue

The Authority has not been a passive observer to these budget cuts nor to the events that led to them. The Authority has:

- Actively engaged in legislative efforts, as part of the Michigan Association of Community Mental Health Boards, the Mental Health Coalition, and acting on its own to prevent the appropriations decisions that led to these cuts.
- Prepared, well in advance, for a range of funding scenarios, including the scenario leading to the projected deficit.
- Taken aggressive steps over the past several years to reduce costs via increases in staff efficiency and the utilization of the flexibility granted the Authority under the Medicaid managed care waiver. These steps worked to minimize, as much as possible, the negative impact of the proposed cuts on consumers.
- Built alliances with community partners to stretch limited resources.
- Continued to aggressively seek additional funding for a wide range of innovative services to the tri-county community, including federal, state, local, commercial, and private sources. These efforts have resulted in innovative services for which funding was obtained from the Substance Abuse and Mental Health Services Administration (SAMHSA) of the U.S. Department of Health and Human Services; U.S. Department of Housing and Urban Development (HUD); Michigan Department of Community Health (MDCH) (via federal MH/SA Block Grant funds); Michigan Department of Corrections; and a number of local school districts. Additionally unique financing approaches, by which the limited resources of CMH and a number of partners are used to leverage additional revenue, most notably from the Child Care Funds in all three counties, from the Michigan Rehabilitation Services, HUD, and MDCH.

The Integrity of its Clinical, Fiscal, and Organizational Infrastructure

We see the cuts taken this year and in past years as representative of society's and the state's retreat in their commitment to the disabled, at-risk, and marginalized members of our communities. In spite of this, the Authority remains strong at its core. The Authority has been committed, in the face of budget cuts, to remaining clinically, organizationally, and fiscally strong while ensuring its infrastructure was not permanently damaged by the cuts. The following gives us a picture of that strength:

- A. We have been committed to and successful in making budget cuts avoiding, whenever possible, harming consumers.
- B. We have been committed to doing a smaller number of things well rather than doing a large number of things poorly.
- C. Even after the cuts, we are still a very strong human service provider in this community, with a budget of \$69 million (representing the operational costs of the organization's work in the tri-county region), a staff of 800 individuals, serving over 10,000 individuals each year. Our stature among other human service organizations is very strong and getting stronger.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise three components:

- 1. Government-wide financial statements
- 2. Fund financial statements
- 3. Notes to the financial statements

This report also contains other supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business. This is accomplished by reporting the Authority's assets and liabilities using the full accrual method of accounting. Prior to the implementation and adoption of GASB No. 34, the assets and liabilities of the Authority were reported using the modified accrual method accounting. In essence, this change in accounting method requires the Authority to disclose borrowings, compensated absences for employees, and capital assets less accumulated depreciation on the Authority's financial statements.

The Statement of Net Assets presents information on all the Authority's assets and liabilities with the difference between the two reported as total net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. In addition, this statement discloses the non-cash expenditure of depreciation that affects the ending book value of capital assets.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or object. The Authority, similar to state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority may be divided into three categories: Governmental Funds, Internal Service Funds, and Fiduciary Funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, a well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority adopts an annual budget for its General Fund. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with those budgets.

Proprietary Funds – Internal Service Funds

Proprietary funds are used to account for the Authority's business-type activities. The Risk Reserve Funds are used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Community Health (MDCH). Pursuant to these contractual provisions, the Authority's risk management plan has been reviewed and approved by MDCH. Separate risk reserves are maintained for mental health and substance abuse services. The Fixed Asset Replacement Reserve is used to account for and finance future fixed asset purchases and the Compensated Absences Reserve is used to account for the Authority's vacation benefit liability. Both the Fixed Asset Replacement Reserve and the Compensated Absences Reserve are permitted by the Michigan Mental Health Code.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs. Fiduciary funds are commonly referred to as payee funds. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The accompanying notes are an integral part of the financial statements and must be reviewed in conjunction with the information reported on the financial statements to provide a full understanding of the Authority's financial situation.

Other Information

The combining statements are presented immediately following the notes to the financial statements.

Government-Wide Financial Analysis

The largest portion of the Authority's total assets (44%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). The Authority uses these capital assets to provide services to the clients it serves; consequently, these assets are not available for future spending and are considered fixed. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The corresponding debt for the facilities makes up the largest portion of the Authority's liabilities representing approximately 39%.

1	N	et	Δ	ssets

1001125501	 Government	tal Activities	
September 30,	2005	2004	
Current and other assets	\$ 14,114,867	\$ 12,435,612	
Investments	5,534,680	5,791,374	
Capital assets, net	15,508,634	16,216,364	
Total Assets	 35,158,181	34,443,350	
Long-term liabilities outstanding	8,963,547	9,629,389	
Other liabilities	 14,968,102	14,702,571	
Total Liabilities	23,931,649	24,331,960	
Net Assets:			
Invested in capital assets, net of related debt	6,096,522	6,048,344	
Restricted	2,227,728	2,662,478	
Unrestricted	 2,902,282	1,400,568	
Total Net Assets	\$ 11,226,532	\$ 10,111,390	

Changes in Net Assets

ū	Governmental Activities			
Year ended September 30,	2005	2004		
Revenues:				
Program revenue:				
Charges for services	\$ 800,994	\$ 753,932		
Operating grants and contributions	41,660,530	40,851,442		
General revenue:				
MDCH contract	59,037,452	55,171,697		
Local funding	2,433,985	2,365,054		
Unrestricted investment earnings	301,961	101,877		
Total Revenues	104,234,922	99,244,002		
Expenses:				
Adults with mental illness	21,154,002	19,611,977		
Children with emotional disturbance	6,764,946	6,226,819		
Developmental disabilities	32,145,200	31,313,377		
Substance abuse	3,294,226	2,781,016		
Board administration	6,477,910	5,885,845		
Medicaid pass-through	543,935	31,630,522		
Affiliation	32,237,232	532,606		
Interest	502,329	511,771		
Total Expenses	103,119,780	98,493,933		
Change in Net Assets	1,115,142	750,069		
Net Assets, beginning of year	10,111,390	9,361,321		
Net Assets, end of year	\$ 11,226,532	\$ 10,111,390		

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's Governmental Funds reported an ending fund balance of \$2,902,282, an increase of \$852,664 in comparison with the prior year. Approximately 66.6% of this total amount (\$1,933,792) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or restricted to indicate it is not available for new spending because the underlying assets are included in inventory and prepaids and are not available for current expenditures or are restricted and must be used for the ongoing construction project.

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets for its governmental activities as of September 30, 2005, amounted to \$15,508,634 (net of accumulated depreciation of \$13,319,245). This investment in capital assets includes land, buildings, vehicles, and equipment. Additional information on the Authority's capital assets can be found in Note 6 of the financial statements.

Debt Administration

The Authority's long-term debt activity consisted of making debt service payments therefore decreasing debt by \$862,242. Additional information on the Authority's long-term obligations can be found in Note 7 of the financial statements.

Budget Modifications

There were two primary budget modifications in fiscal year 2005 impacting both revenues and expenses:

- During the fiscal year, Adult Benefit Waiver enrollment was frozen resulting in \$325,000 returning to the state of Michigan budget. The MDCH increased the State inpatient revenue and expenditures by \$200,000.
- The number of Medicaid eligibles within our affiliation increased resulting in increased Medicaid funding of \$1,866,000. Medicaid was reallocated within the affiliation based on anticipated usage resulting in a reduced pass-through revenue and expenditure of \$490,000.

Variance Budget to Actual

There were two predominant variances between budget and actual:

- The MDCH initiated a Medicaid QAAP tax in the fourth quarter of fiscal year 2005 resulting in \$833,000 of additional revenue and expenditures that were not budgeted.
- Medicaid was reallocated within the affiliation based on actual usage resulting in a variance between budgeted and actual pass-through revenue and expenditures of \$877,000.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds received. If you have questions about this report or need additional information, contact the Business Office, Community Mental Health Authority of Clinton, Eaton, and Ingham Counties, 812 East Jolly Road, Suite 210, Lansing, Michigan 48910.

Government-Wide Financial Statements Statement of Net Assets

	G.	overnmental	
Cantombox 30 2005	Activities		
September 30, 2005			
Assets:			
Cash and cash equivalents (Note 4)	\$	7,234,009	
Investments (Note 4)		5,534,680	
Accounts receivable (Note 5)		5,912,368	
Prepaids and other assets		968,490	
Capital assets not depreciated (Note 6)		1,428,250	
Capital assets depreciated, net (Note 6)		14,080,384	
Total Assets	\$	35,158,181	
Liabilities: Accounts payable and accrued liabilities Unearned revenue (Note 5) Current portion of long term liabilities (Note 7) Noncurrent portion of long term liabilities: Compensated absences (Notes 7 and 8) Debt and capital lease obligations (Note 7)	\$	8,032,387 4,713,607 2,222,108 418,942 8,544,605	
Total Liabilities		23,931,649	
Net Assets:			
Invested in capital assets, net of related debt		6,096,522	
Restricted for contract losses		2,227,728	
Unrestricted		2,902,282	
Total Net Assets		11,226,532	
Total Liabilities and Net Assets	\$	35,158,181	

Government-Wide Financial Statements Statement of Activities

		Program Revenue			Revenues	S Governmental		
Year ended September 30, 2005		Expenses	Charges for Services				Revenue and Changes in Net Assets (Deficit)	
Functions/Programs:								
Governmental activities:								
Adults with mental illness	\$	21,154,002	\$	- · · , · · ·	\$	2,021,897	\$ (18,557,358)	
Children with emotional disturbance		6,764,946		35,797		1,434,199	(5,294,950)	
Developmental disabilities		32,145,200		103,662		2,663,255	(29,378,283)	
Substance abuse		3,294,226		86,574		2,234,732	(972,920)	
Board administration		6,477,910		214		365,333	(6,112,363)	
Affiliation		543,935		-		703,882	159,947	
Medicaid pass-through		32,237,232		-		32,237,232	-	
Interest		502,329		_		-	(502,329)	
Total Governmental Activities	\$	103,119,780	\$	800,994	\$	41,660,530	(60,658,256)	
		neral Revenue					·	
	N	MDCH contrac	t:					
		Medicaid					45,949,579	
		General Fund	ł				13,087,873	
		ocal funding					2,433,985	
	<u></u>	Jnrestricted inv	estm/	ent earnings	<u> </u>		301,961	
	To	tal General Ro	venu	ies			61,773,398	
	Inc	rease in Net A	ssets				1,115,142	
	Net	Assets, begin	ning (of year			10,111,390	
	Net	Assets, end of	year				\$ 11,226,532	

Governmental Funds Balance Sheet

September 30, 2005	General Fund
Assets:	
Cash and cash equivalents (Note 4)	\$ 6,146,552
Investments (Note 4)	4,176,397
Accounts receivable (Note 5):	
Grants and contracts	1,811,614
Affiliate	1,318,132
Fees	1,506,555
Trade	75,712
Other receivable	1,191,921
Inventories	171,137
Prepaid expenditures and deposits	797,353
Total Assets	\$ 17,195,373
Liabilities and Fund Balance	
Liabilities:	
Accounts payable:	
State of Michigan	\$ 1,910,758
Community inpatient hospitalization	876,060
Trade	3,094,010
Other	451,316
Accrued payroll	1,700,243
Interfund payable (Note 9)	1,547,097
Deferred revenue (Note 5)	4,713,607
Total Liabilities	14,293,091
Fund Balance:	
Reserved:	
Inventories	171,137
Prepaids	797,353
Unreserved -	,
Undesignated	1,933,792
Total Fund Balance	2,902,282
Total Liabilities and Fund Balance	\$ 17,195,373

Governmental Funds

Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on the Statement of Net Assets

September 30, 2005

Total Fund Balance - Governmental Fund (from Page 12)

\$ 2,902,282

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Internal Service Funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods for fixed asset replacement and to fund compensated absences. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

Add - Net assets of Internal Service Funds

8,324,250

Net Assets of Governmental Activities

\$ 11,226,532

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance

Year ended September 30, 2005	General Fund
Revenues:	
Federal sources	\$ 951,036
State sources	13,910,174
Local sources	3,054,589
Medicaid contracts	47,646,085
Other contracts	5,332,852
Charges for services and fees	800,995
Investment income	243,550
Medicaid pass-through	32,237,232
Total Revenues	104,176,513
Expenditures: Adults with mental illness	21,535,701
Children with emotional disturbance	6,916,307
Developmental disabilities	32,440,230
Substance abuse	3,358,640
Board administration	6,632,987
Affiliation	551,663
Medicaid pass-through	32,237,232
Total Expenditures	103,672,760
Excess of Revenues Over Expenditures	503,753
Other Financing Sources -	
Transfers in	348,911
Net Change in Fund Balance	852,664
Fund Balance, beginning of year	2,049,618
Fund Balance, end of year	\$ 2,902,282

Governmental Funds

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to Statement of Activities

et Change in Fund Balance - Governmental Fund (from Page 14)	\$ 852,664
Internal Service Funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods for fixed asset replacement and to fund compensated absences. The net revenue (expense) of those funds are reported with governmental activities:	
Add:	
Net operating income from Internal Service Funds	1,054,779
Interest revenue from Internal Service Funds	58,411
Gain on sale of fixed asset in Internal Service Funds	528
Deduct:	
Interest expense from Internal Service Funds	(502,329)
Transfer from Internal Service Funds	(348,911)

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund

Year ended September 30, 2005	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Federal grants and contracts	\$ 1,781,609	\$ 1,767,373	\$ 951,036	\$ (816,337)
State of Michigan	12,612,866	13,263,170	13,910,174	647,004
Local revenue	3,265,694	3,065,300	3,054,589	(10,711)
Earned contracts	4,528,918	4,630,398	4,282,575	(347,823)
Medicaid contracts:				
PIHP	41,962,445	44,314,995	45,949,580	1,634,585
Substance abuse - PIHP	167,510	243,000	260,786	17,786
Fee for service	1,756,557	1,460,180	1,435,719	(24,461)
SSI/SSA	927,336	1,033,254	1,050,277	17,023
Fees	532,249	532,249	630,862	98,613
Food stamps	162,662	168,563	170,133	1,570
Interest	80,000	160,000	243,550	83,550
Medicaid pass-through	33,601,089	33,114,605	32,237,232	(877,373)
Total Revenues	101,378,935	103,753,087	104,176,513	423,426
Expenditures:				
Adults with mental illness	20,393,773	21,146,516	21,535,701	(389,185)
Children with emotional disturbance	6,401,693	6,768,599	6,916,307	(147,708)
Developmental disabilities	33,189,978	32,275,363	32,440,230	(164,867)
Substance abuse	2,899,358	3,329,055	3,358,640	(29,585)
Board administration	6,302,840	6,596,522	6,632,987	(36,465)
Affiliation administration	627,197	522,427	551,663	(29,236)
Medicaid pass-through	33,601,089	33,114,605	32,237,232	877,373
Total Expenditures	103,415,928	103,753,087	103,672,760	80,327
Excess of Revenues Over Expenditures	(2,036,993)	-	503,753	503,753
Other Financing Sources - Transfers in	-	-	348,911	348,911
Net Change in Fund Balance	(2,036,993)	-	852,664	852,664
Fund Balance, beginning of year	2,049,618	2,049,618	2,049,618	
Fund Balance, end of year	\$ 12,625	\$ 2,049,618	\$ 2,902,282	\$ 852,664

Statement of Net Assets Proprietary Funds

September 30, 2005		Internal Service Funds
Assets:		
Cash and cash equivalents (Note 4)	\$	1,087,457
Investments (Note 4)		1,358,283
Interfund receivable (Note 9)		1,836,221
Interest receivable		8,434
Capital assets not being depreciated (Note 6)		1,428,250
Capital assets being depreciated, net (Note 6)		14,080,384
Total Assets	\$	19,799,029
Liabilities: Interfund payable Current portion of long term liabilities (Note 7) Long-term liabilities: Compensated absences payable (Notes 7 and 8)	\$	289,124 2,222,108
Debt and capital lease obligations (Note 7)		418,942 8,544,605
Total Liabilities	- 14	11,474,779
Net Assets:		C 00 C 500
Invested in capital assets, net of related debt		6,096,522
Restricted for contract losses		2,227,728
Total Net Assets		8,324,250
Total Liabilities and Net Assets	\$	19,799,029

Statement of Revenue, Expenses, and Changes in Fund Net Assets Proprietary Funds

Year ended September 30, 2005	Se	ernal rvice unds
Operating Revenue -		
Charges for services	\$ 2	,222,666
Operating Expenses:		
Compensated absences		105,261
Depreciation	1	,062,626
Total Operating Expenses	1	,167,887
Operating Income	1	,054,779
Non-Operating Revenue (Expense):		
Interest income		58,411
Interest expense		(502,329)
Gain on sale of fixed assets		528
Total Non-Operating Expense		(443,390)
Income Before Transfers		611,389
Transfers Out		(348,911)
Change in Net Assets		262,478
Net Assets, beginning of year	8,	061,772
Net Assets, end of year	\$ 8,	324,250

Statement of Cash Flows Proprietary Funds

Year ended September 30, 2005		
Operating Activities:		
Cash received from other funds	\$	_,,
Cash payments to other funds		(1,348,625)
Cash Provided by Operating Activities		1,007,062
Capital and Related Financing Activities:		
Principal payments		(862,242)
Interest payments		(502,329)
Capital asset purchases		(354,896)
Proceeds from sale of fixed assets		528
Cash Used in Capital and Related Financing Activities		(1,718,939)
Cash Used in Non-Capital Financing Activities -		
Transfers to other funds		(348,911)
Investing Activities:		
Interest income		50,417
Purchase of investments		324,853
Cash Provided by Investing Activities		375,270
Decrease in Cash		(685,518)
Cash and Cash Equivalents, beginning of year		1,772,975
Cash and Cash Equivalents, end of year	\$	1,087,457
Reconciliation of Operating Income to Cash Provided by Operating Activities:		
Operating income	\$	1,054,779
Adjustments to reconcile operating income to cash provided by operating activities:	•	, ,
Depreciation		1,062,626
Changes in assets and liabilities:		
Interfund balances		(1,215,604)
Compensated absences payable		105,261
Cash Provided by Operating Activities	\$	1,007,062

Statement of Fiduciary Net Assets Fiduciary Funds

September 30, 2005	Private Purpose er 30, 2005 Trust Fund		Agency Fund		
Assets: Cash and cash equivalents Note 4) Investments (Note 4)	\$	- 17,093	\$	531,632	
Total Assets	\$	17,093	\$	531,632	
Liabilities and Net Assets					
Liabilities - Accounts payable	\$	-	\$	531,632	
Net Assets - Held in trust		17,093		-	
Total Liabilities and Net Assets	\$	17,093	\$	531,632	

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

Year ended September 30, 2005	Private Purpose Trust Fund
Additions -	
Investment earnings	\$ 255
Deductions -	
Program services	44
Change in Net Assets	211
Net Assets, beginning of year	16,882
Net Assets, end of year	\$ 17,093

Notes to Financial Statements

1. Description of the Authority

The Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority) was established under Section 205 of the Michigan Mental Health Code.

The Authority provides services generally in the areas of mental health, comprehensive substance abuse treatment, and developmental disabilities for the Clinton, Eaton, and Ingham County region. The Authority's activities are funded through federal grants, state allocations, premium revenue, county appropriations, service fees, and local gifts and grants.

The Authority serves as the Prepaid Inpatient Health Plan (PIHP) for the Community Mental Health Affiliation of Mid Michigan (CMHAMM). In this role, the Authority is responsible for the Medicaid revenue and expenditures of an eight county region consisting of Benzie, Clinton, Eaton, Gratiot, Ingham, Ionia, Newaygo, and Manistee Counties.

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's significant accounting policies are described below.

Basis of Presentation

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Authority. For the most part, the effect of inter-fund activity has been removed from these statements. The Government-wide financial statements categorize activities as either governmental or business-type. All of the Authority's activities are classified as governmental.

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Other items not included among program revenues are reported as general revenues.

Fund Financial Statements - Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds. The General Fund is the only governmental fund in the fund financial statements.

Notes to Financial Statements (Continued)

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if they are collected within the current period or soon enough after to pay liabilities for the current period. The Authority considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recorded only when payment is due.

Service charges to first and third-party payor and grant funds associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The Authority reports the following major governmental fund -

• The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the Authority reports the following fund types:

- The Internal Service Funds are used to account for and finance potential uninsured risks of
 loss related to various funds received through the Michigan Department of Community Health
 (MDCH), as well as for reserves for fixed asset replacement and compensated absences, as
 permitted by the Michigan Mental Health Code.
- The Fiduciary Funds are used to account for resources held for the benefit of parties outside the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Notes to Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's Internal Service Funds are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non-operating revenues.

Assets, Liabilities, and Net Assets

Cash and Investments - Cash and investments include cash on hand, demand deposits, money market accounts, and certificates of deposit. Investments include deposits with a maturity of more than three months from the purchase date and money market accounts.

Inventories, Prepaids, and Deposits – Inventories are valued at the lower of cost or market on a first-in, first-out basis, which approximates market. Inventories consist of materials for the toothbrush production facility at Bretton Square.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Certain funds held by third parties for future benefits are recorded as deposits. Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund balances.

Capital Assets - Capital assets are capitalized and reported in the Fixed Asset Replacement Reserve Internal Service Fund, net of accumulated depreciation. Capital assets are depreciated on the straight-line basis over the estimated useful lives of those assets, which range from three to 40 years. All purchased fixed assets are recorded at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets, if any, are valued at their estimated fair market value on the date received.

Only improvements that add to the value of the asset or materially extend assets useful lives are capitalized. It is the policy of the Authority to capitalize assets whose value exceeds \$5,000.

Compensated Absences – Compensated absences are charged to operations in the Compensated Absences Reserve Internal Service Fund when earned by employees.

MDCH Revenue – The Authority provides mental health services on behalf of the MDCH in accordance with a managed specialty supports and services contract. Under the contract, the Authority receives monthly capitation payments based on the number of the MDCH's participants, regardless of services actually performed by the Authority. In addition, the MDCH makes fee-for-service payments to the Authority for certain covered services.

Deferred Revenue – Deferred revenue represents the portion of the current year MDCH contract amount and other grant revenues that may be carried over to and expended in subsequent fiscal years.

Notes to Financial Statements (Continued)

Medicaid savings, which are limited to 7.5% of the MDCH Medicaid contract amount, must be spent in the following year in accordance with a Medicaid Reinvestment Strategy. State general funds savings, which are limited to 5% of the MDCH general fund contract amount, must be spent in the following year.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets - Designations of net assets represent tentative management plans that are subject to change.

CMH Affiliation of Mid-Michigan - In 2003, the Michigan Department of Community Health changed the requirements for administering Medicaid contracts. As part of this change, smaller CMH boards were required to partner together to create affiliations of sufficient size to be able to contract with MDCH. The Authority acts as the PIHP for one such affiliation. Accordingly, a substantial portion of the Authority's budget is reported as "Medicaid pass-through," and is passed-through to the CMH boards of other counties, subject to an affiliation agreement.

3. Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the executive director in August of each year and adopted by the Authority during September. The budget reports revenue related to substance abuse separately from the other revenue categories, as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance — General Fund. The budget reports expenditures by activity versus object classification. Subsequent amendments are approved by the Authority.

Excess of Expenditures Over Appropriations - The budget has been adopted on a program basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. This comparison includes expenditure budget overruns. Expenditure budget overruns were as follows:

Year ended September 30, 2005	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Adults with mental illness	\$20,393,773	\$ 21,146,516	\$ 21,535,701	\$ (389,185)
Children with emotional disturbance	6,401,693	6,768,599	6,916,307	(147,708)
Developmental disabilities	33,189,978	32,275,363	32,440,230	(164,867)
Substance abuse	2,899,358	3,329,055	3,358,640	(29,585)
Board administration	6,302,840	6,596,522	6,632,987	(36,465)
Affiliation administration	627,197	522,427	551,663	(29,236)

Notes to Financial Statements (Continued)

4. Cash, Deposits, and Investments

Deposits - State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The Authority's investment policy complies with the State statutes and has no additional limitations on deposits.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial credit risk over deposits. At September 30, 2005, \$13,079,213 of the Authority's bank balances of \$13,473,228 were exposed to custodial credit risk as follows:

Uninsured and Uncollateralized:

		
Certificates of deposit		4,918,838
Money market		1,415,841
Cash and savings	\$	6,744,534

Total Uninsured and Uncollateralized \$ 13,079,213

At September 30, 2005, all of the fiduciary bank balances of \$579,752 as reported in the Statement of Fiduciary Net Assets were exposed to custodial credit risk as uninsured and uncollateralized.

Investments – State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the state of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2005, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Notes to Financial Statements (Continued)

Interest Rate Risk - Investments - Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk - Investments - Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk – State statutes limits investments in commercial paper to rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the state of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer.

5. Receivables

Receivables, as of September 30, 2005, for the Authority's General and Internal Service Funds in the aggregate, are as follows:

General	Internal Service	Total	Amount Not Expected to be Collected Within One Year
\$ 1,811,614	\$ -	\$ 1,811,614	\$ -
1,318,132	-	1,318,132	81,602
1,506,555	-	1,506,555	•
75,712	-	75,712	-
1,191,921	8,434	1,200,355	-
\$ 5,903,934	\$ 8,434	\$ 5,912,368	\$ 81,602
	\$ 1,811,614 1,318,132 1,506,555 75,712 1,191,921	General Service \$ 1,811,614 \$ - 1,318,132 - 1,506,555 - 75,712 - 1,191,921 8,434	General Service Total \$ 1,811,614 \$ - \$ 1,811,614 1,318,132 - 1,318,132 1,506,555 - 1,506,555 75,712 - 75,712 1,191,921 8,434 1,200,355

Notes to Financial Statements (Continued)

Governmental Funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the Governmental Funds were as follows:

	Deferred
General Fund	\$ 4,713,607

6. Capital Assets

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance October 1, 2004	Additions	De	ductions	S	Balance September 30, 2005
Governmental Activities:						
Capital assets not depreciated - Land	\$ 1,428,250	\$ -	\$	-	\$	1,428,250
Capital assets depreciated:						
Building and improvements	11,239,770	-		-		11,239,770
Capitalized building lease	10,215,407	-		-		10,215,407
Equipment	3,011,760	30,894		-		3,042,654
Vehicles	 2,629,430	324,002		(51,634)		2,901,798
Totals at Historical Cost	28,524,617	 354,896		(51,634)		28,827,879
Less accumulated depreciation:						
Building and improvements	(5,608,214)	(449,853)		-		(6,058,067)
Capitalized building lease	(1,889,093)	(296,315)		-		(2,185,408)
Equipment	(2,519,189)	(159,954)		-		(2,679,143)
Vehicles	(2,291,757)	(156,504)		51,634		(2,396,627)
Total accumulated depreciation	(12,308,253)	(1,062,626)		51,634		(13,319,245)
Total capital assets being depreciated, net	14,788,114	(707,730)		-		14,080,384
Net Capital Assets	\$ 16,216,364	\$ (707,730)	\$	-	\$	15,508,634
Depreciation Expense by Function						
Adults with mental illness	\$ 368,315					
Children with emotional disturbance	50,639					
Developmental disabilities	404,568					
Substance abuse	34,298					
Board administration	204,806					
Total Depreciation Expense by Function	\$ 1,062,626					

Notes to Financial Statements (Continued)

The Authority leases various buildings and equipment under operating leases. These leases generally have a term of one year. Total costs for such leases were recorded as rent expense in the supplemental financial schedules included with this report and amounted to \$589,626 for the year ended September 30, 2005.

7. Long-Term Obligations

The following is a summary of long-term debt transactions of the Authority:

September 30, 2005	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Installment debt:	e (000 457	c	e 400.049	e <i>5 667</i> 200	f 447.012
Capital leases	\$ 6,090,457	\$ -	\$ 423,248	\$ 5,667,209	\$ 447,913
Notes payable	3,731,257	-	251,239	3,480,018	262,738
Vehicle loans	389,962		187,755	202,207	94,178
Total installment debt	10,211,676	-	862,242	9,349,434	804,829
Compensated absences	1,730,960	1,453,886	1,348,625	1,836,221	1,417,279
Total Long-Term Liabilities		0.1.452.006	#2.210.0 67	#11 10 <i>5 CEE</i>	#2 222 100
Governmental Activities	\$11,942,636	\$ 1,453,886	\$2,210,867	\$11,185,655	\$2,222,108

Annual requirements to pay principal and interest on long-term debt are as follows:

	Governmen		
Year ending September 30,	Principal	Interest	Total
2006	\$ 804,829	\$ 465,097	\$ 1,269,926
2007	882,750	419,993	1,302,743
2008	574,522	380,485	955,007
2009	428,808	356,590	785,398
2010	447,789	336,216	784,005
2011-2015	2,591,916	1,326,519	3,918,435
2016-2020	2,229,431	626,555	2,855,986
2021-2025	1,389,389	79,915	1,469,304
	\$ 9,349,434	\$ 3,991,370	\$13,340,804

Notes to Financial Statements (Continued)

Total Long-Term Debt	\$ 9,349,434
Vehicle leases payable, interest at 5.50%, due in monthly installments of \$8,579 through October 2007	202,207
Notes payable, including interest ranging generally from 4.3125% to 85% of prime (prime was 6.75% at September 30, 2005), due in monthly installments through September 2024, collateralized by land and buildings	3,480,018
Capital leasehold improvements payable, interest at 5.00%, due in monthly installments of \$2,285 through April 2021	296,358
Capital building lease payable, interest at 7.39%, due in monthly installments of \$14,670 through July 2008; the lease continues through July 2038 with payments consisting solely of utility costs after July 2008	436,702
Capital building lease payable, interest ranging from 4.30% to 5.00%, due in semi-annual installments ranging from \$215,553 to \$488,335, plus interest, though July 2018; the lease continues through July 2048	\$ 4,934,149
Long-term installment debt payable at September 30, 2005, is comprised of the following:	

8. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Authority manages its risk exposures through commercial insurance and excess coverage policies. On risks that are commercially insured, the Authority retains risk of loss ranging from \$1,000 - \$25,000. Settlements have not exceeded commercial insurance coverage in any of the past three years.

In addition, the Authority provides dental employee benefits through a self-insurance plan. Claims expenditures and liabilities are reported in the General Fund when it is probable that a loss has occurred and the amount can be reasonably estimated. At September 30, 2005, the amount of this liability was approximately \$40,000.

Notes to Financial Statements (Continued)

The Authority is exposed to risk of loss up to 7.5% of revenues received from the state of Michigan under its managed care contracts. To manage these risks, the Authority makes payments to the Mental Health and Substance Abuse Risk Reserve Internal Service Fund based on actuarial estimates of the amounts needed to pay prior and current claims and to establish a reserve for excess loss. The Authority increased Medicaid savings to 2.5% or greater, increased General Fund savings to 5%, increased the Medicaid ISF to no greater than the maximum amount allowed by MDCH, and increased the General Fund ISF to no greater than the maximum allowed by MDCH.

The Fixed Asset Replacement and Compensated Absences Reserve Internal Service Funds are restricted for securing resources to fund future capital asset replacements and making payments on accrued compensated absences, as permitted by the Michigan Mental Health Code.

Following is a schedule of changes in Net Assets of the Risk Reserve Internal Service Funds:

Year ended September 30, 2005	Mental Health	Substance Abuse	Fixed Asset Replacement	Compensated Absences
Beginning balance	\$ 2,309,643	\$ 86,120	\$ 6,048,344	\$ (382,335)
Additions	179,539	1,337	1,613,133	487,596
Deletions	(348,911)	-	(1,564,955)	(105,261)
Ending balance	\$ 2,140,271	\$ 87,457	\$ 6,096,522	\$ -

Additions to the Mental Health and Substance Abuse Risk Reserves were comprised of funds received from MDCH and interest earnings. Additions to the Fixed Asset Replacement and Compensated Absences Reserves were comprised of interfund charges for services and gains on the sale of capital assets. Reductions in the reserves represented the funds' respective program services and depreciation.

Contributions to the Internal Service Funds are considered eligible expenditures under the MDCH contract and, accordingly, are included on the Statement of Revenue, Expenditures, and Changes in Fund Balance - General Fund in the various expenditure categories.

Notes to Financial Statements (Concluded)

9. Interfund Receivables, Payables, and Transfers

The Authority has the following interfund receivables and payables:

Year ended September 30, 2005	Interfund Receivables	Interfund Payables	
General Fund	\$ -	\$ 1,547,097	
Mental Health Risk Reserve	_	226,446	
Compensated Absences Reserve	1,836,221	-	
Fixed Asset Replacement Reserve	-	62,678	
Total	\$ 1,836,221	\$ 1,836,221	

These balances represent the difference between the cumulative cash flows of the fixed asset replacement reserve, risk reserve, and compensated absences reserve, and the amounts charged to the General Fund as eligible expenditures under the MDCH contract.

The General Fund transferred \$348,911 to the Mental Health Reserve Internal Service Fund for Medicaid savings.

10. Retirement Plan

The Authority participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS), which provides retirement, death, and disability benefits covering substantially all of the Authority's full-time employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

The obligation to contribute to and maintain MERS for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from employees of 1.54% to 6.34%.

For the year ended September 30, 2005, the Authority's annual pension cost of \$2,612,124 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (1) an 8% investment rate of return and (b) projected salary increases of 4.5% per year, plus a percentage based on an age related scale to reflect merit, longevity, and promotional salary increases. Both (a) and (b) include an inflation adjustment of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period at December 31, 2004, the date of the latest actuarial valuation is 10 years.

Notes to Financial Statements (Continued)

Three-Ye	ear Trend In	<u>formation</u>

	Year ended September 30,		
	2005	2004	2003
Annual pension cost	\$ 2,612,124	\$ 2,463,012	\$ 1,806,966
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	58,677,727	54,621,704	48,607,937
Actuarial accrued liability (entry age)	80,881,955	74,479,549	64,395,940
Unfunded AAL	22,204,228	19,857,845	15,788,003
Funded ratio	73%	73%	76%
Covered payroll	23,463,706	21,490,994	24,840,543
UAAL as a percentage of covered payroll	95%	92%	63%

11. Other Postemployment Benefits

In addition to the pension benefits described in Note 10, the Authority provides postretirement health care benefits for eligible retirees of the Local 459 union. To be eligible upon retirement, the employee must be vested in the pension plan, be in a residential, RN or local 459 position for 10 years, including the five prior to retirement, and be at least 60 years of age. The plan allows retirees to purchase health care insurance for \$75 less than the cost. If the plan does not have proper funding for this discount, the cost to the retiree will increase. The Authority is obligated to make annual contributions of \$25,000 under the plan and is not required to provide any additional funding to the plan.

12. Grants and Contracts

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. The state of Michigan allocation under Act 258 provides support for all qualifying programs and allowable costs, with the balance being provided by contributions from local sources.

State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Notes to Financial Statements (Concluded)

13. Commitments

At September 30, 2005, the Authority has a commitment to contribute \$20,000 annually to a major maintenance fund controlled by Ingham County for repairs on property under a capital lease agreement with Ingham County. The obligations under this lease agreement expire on July 1, 2018. The major maintenance fund held by Ingham County is restricted for use for maintenance scheduled in the agreement; therefore, the balance is not recorded by the Authority. The balance of this fund at September 30, 2005, was approximately \$278,000.

14. Subsequent Event

On October 26, 2005, the Authority entered into an agreement to purchase a residential home for \$701,700 within 21 days of the contractor completing the construction of the home.

Combining and Individual Fund Statements and Schedules

Year ended September 30, 2005	Adults With Mental Iliness		Children With Emotional Disturbance		Developmenta Disabilities	
Expenditures:						
Current:						
Salaries and wages	\$	8,510,602	\$ 3,600	.844	\$	9,694,563
Fringe benefits		2,330,843	1,026	-		2,636,401
Contractual services:			•			, ,
Clinical		131,370	13	,995		63,117
Client		4,205,457	645	,475		15,373,404
Inpatient		2,448,938		,957		-
Other		149,816		,958		101,849
Communication		123,147		,129		99,355
Dues and supplies		515,971		,890		534,057
General insurance		316,311	85	,123		265,843
Client transportation		272,417		82		903,227
Travel, conferences, and parking		71,843	172	,495		169,881
Employee programs		4,426	2	,170		3,612
Utilities		179,277	46	,233		158,191
Rent		138,053	24	,435		384,591
Repairs and maintenance		356,566	80	,016		428,912
Program food services		158,266		-		81,098
Local match		454,086	377	,274		715,244
Loss reserve provision		42,363	13.	,374		66,727
Other		342,356	135	,096		156,558
Compensated absences use		150,108	63,	,511		170,989
Fixed asset use allowance		633,485	141	,831		432,611
Total Expenditures before Medicaid Pass-Through	21	1,535,701	6,916,	,307		32,440,230
Medicaid pass-through						
Total Expenditures	\$ 21	,535,701	\$ 6,916,	307	\$	32,440,230

Schedule of Functional Expenditures General Fund

Substance Abuse	Board Administration	Affiliation	Total
\$ 2,058,268	\$ 3,429,051	\$ 351,754	\$ 27,645,082
599,485	1,047,920	102,519	7,743,587
47,722	-	_	256,204
=	-	-	20,224,336
-	-	-	2,685,895
55,336	258,818	50,018	715,795
30,835	108,492	963	416,921
98,292	510,663	11,322	1,767,195
52,622	81,930	7,168	808,997
4,043	36,737	-	1,216,506
16,821	50,695	8,145	489,880
115	40,634	255	51,212
59,280	50,008	1,434	494,423
27,629	14,515	403	589,626
54,297	301,233	2,573	1,223,597
78,344	-	-	317,708
-	136,485	-	1,683,089
-	-	-	122,464
54,556	189,900	4,344	882,810
36,303	60,481	6,204	487,596
84,692	315,425	4,561	1,612,605
3,358,640	6,632,987	551,663	71,435,528
			32,237,232
\$ 3,358,640	\$ 6,632,987	\$ 551,663	\$ 103,672,760

Combining Statement of Net Assets Internal Service Funds

September 30, 2005	Mental Health Reserve	Substance Abuse Risk Reserve	Fixed Asset Replacement Reserve	Compensated Absences Reserve	Total
Assets:					
Cash and cash equivalents	\$ 1,000,000	\$ 87,457	\$ -	\$ -	\$ 1,087,457
Investments	1,358,283	_	-	-	1,358,283
Interfund receivable	-	-	-	1,836,221	1,836,221
Interest receivable	8,434	-	-	-	8,434
Capital assets not depreciated	-	-	1,428,250	-	1,428,250
Capital assets depreciated, net	·	-	14,080,384		14,080,384
Total Assets	\$ 2,366,717	\$ 87,457	\$15,508,634	\$1,836,221	\$19,799,029
Liabilities: Interfund payable Current portion of long term liabilities Long-term liabilities: Compensated absences payable Debt and capital lease obligations	\$ 226,446 - - -	\$ - - -	\$ 62,678 804,829 - 8,544,605	\$ - 1,417,279 418,942	\$ 289,124 2,222,108 418,942 8,544,605
Total Liabilities	226,446	_	9,412,112	1,836,221	11,474,779
Net Assets: Invested in capital assets, net of related debt Restricted for contract losses	2,140,271	- 87,457	6,096,522	-	6,096,522 2,227,728
Total Net Assets	2,140,271	87,457	6,096,522	· -	8,324,250
Total Liabilities and Net Assets	\$ 2,366,717	\$ 87,457	\$15,508,634	\$1,836,221	\$19,799,029

Combining Statement of Revenue, Expenses and Changes in Net Assets Internal Service Funds

Year ended September 30, 2005	Mental Health Reserve	Substance Abuse Risk Reserve	Fixed Asset Replacement Reserve	Compensated Absences Reserve	Total
Operating Revenue -					
Charges for services	\$ 122,465	\$ -	\$ 1,612,605	\$ 487,596	\$ 2,222,666
Operating Expenses: Compensated absences Depreciation	- -	-	1,062,626	105,261	105,261 1,062,626
Total Operating Expenses	-	-	1,062,626	105,261	1,167,887
Operating Income	122,465	-	549,979	382,335	1,054,779
Non-Operating Revenue (Expense): Interest income Interest expense Gain on sale of fixed assets	57,074 - -	1,337 - -	- (502,329) 528	- - -	58,411 (502,329) 528
Total Non-Operating Revenue (Expense)	57,074	1,337	(501,801)		(443,390)
Income Before Transfers	179,539	1,337	48,178	382,335	611,389
Transfers Out	(348,911)	-	-	<u>-</u>	(348,911)
Change in Net Assets	(169,372)	1,337	48,178	382,335	262,478
Net Assets (Deficit), beginning of year	2,309,643	86,120	6,048,344	(382,335)	8,061,772
Net Assets, end of year	\$ 2,140,271	\$ 87,457	\$ 6,096,522	\$ -	\$ 8,324,250

Combining Statement of Cash Flows Internal Service Funds

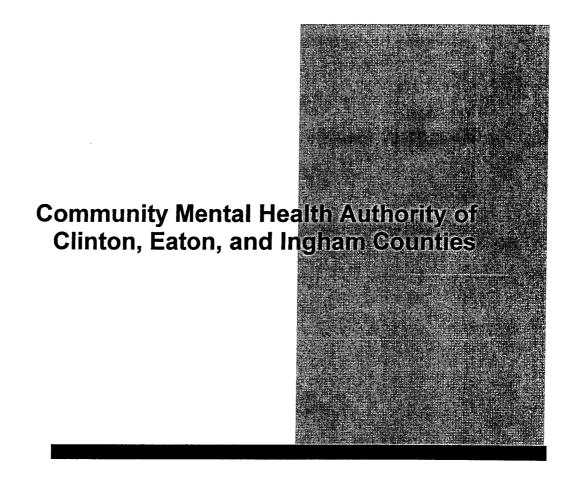
Year ended September 30, 2005	Mental Health Reserve	Substance Abuse Risk Reserve	Fixed Asset Replacement Reserve	Compensated Absences Reserve	Total
Operating Activities: Cash received from other funds Cash payments to other funds	\$ 605,026 -	\$ 31,722	\$1,718,939	\$ - (1,348,625)	\$ 2,355,687 (1,348,625)
Cash Provided by (Used in) Operating Activities	605,026	31,722	1,718,939	(1,348,625)	1,007,062
Capital and Related Financing Activities Principal payments Interest payments Capital asset purchases Proceeds from sale of fixed assets	s: - - -	- - -	(862,242) (502,329) (354,896) 528	- - -	(862,242) (502,329) (354,896) 528
Cash Used in Financing Activities	-		(1,718,939)		(1,718,939)
Cash Used in Non-Capital Financing Activities - Transfers to other funds	(348,911)		<u>-</u>		(348,911)
Investing Activities: Interest received Sale of investment	49,080 324,853	1,337	-	- -	50,417 324,853
Cash Provided by Investing Activities	373,933	1,337		-	375,270
Increase (Decrease) in Cash and Cash Equivalents	630,048	33,059	-	(1,348,625)	(685,518)
Cash and Cash Equivalents, beginning of year	369,952	54,398	-	1,348,625	1,772,975
Cash and Cash Equivalents, end of year	\$ 1,000,000	\$ 87,457	\$ -	\$ -	\$ 1,087,457

Combining Statement of Cash Flows Internal Service Funds (Concluded)

Year ended September 30, 2005	Mental Health Reserve	Substance Abuse Risk Reserve	Fixed Asset Replacement Reserve	Compensated Absences Reserve	Total
Reconciliation of Operating Income to					
Cash Provided by (Used in)					
Operating Activities:					
Operating income	\$ 122,465	\$ -	\$ 549,979	\$ 382,335	\$ 1,054,779
Adjustments to reconcile operating					
income to cash provided by					
(used in) operating activities:					
Depreciation	-	-	1,062,626	-	1,062,626
Changes in assets and liabilities:					
Interfund receivable	256,115	31,722	43,656	(1,836,221)	(1,504,728)
Interfund payable	226,446	-	62,678	-	289,124
Compensated absences payable	 -	-	-	105,261	105,261
Cash Provided by (Used in)					
Operating Activities	\$ 605,026	\$ 31,722	\$1,718,939	\$ (1,348,625)	\$ 1,007,062

Statement of Changes in Assets and Liabilities Agency Fund

Year ended September 30, 2005	Beginning Balance	Additions	Deletions	Ending Balance	
Assets - Cash and cash equivalents	\$ 381,133	\$ 494,915	\$ 344,416	\$ 531,632	
Liabilities - Accounts payable	\$ 381,133	\$ 496,305	\$ 345,806	\$ 531,632	



Reports on Expenditures of Federal Awards

Year Ended September 30, 2005

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211 East Water Street, Suite 300 Kalamazoo, Michigan 49007 Telephone: (269) 382-0170 Fax: (269) 345-1666

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Finance and Audit Committee Community Mental Health Authority of Clinton, Eaton, and Ingham Counties Lansing, Michigan

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated December 13, 2005.

This report is intended solely for the information and use of the Finance and Audit Committee, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

BDO Sudnan, LLA

Certified Public Accountants

December 13, 2005



211 East Water Street, Suite 300 Kalamazoo, Michigan 49007 Telephone: (269) 382-0170 Fax: (269) 345-1666

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Finance and Audit Committee Community Mental Health Authority of Clinton, Eaton, and Ingham Counties Lansing, Michigan

Compliance

We have audited the compliance of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of the Authority, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 13, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Finance and Audit Committee, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

BDO Sedman, LLA

Certified Public Accountants

December 13, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor Number
U.S. Department of Health and Human Services:		
Passed-through Michigan Department of Public Health:	00.050	00000 000 4 000
Block Grant for Prevention and Treatment of Substance Abuse Block Grant for Prevention and Treatment of Substance Abuse	93.959 93.959	02BIMISAPT 02BIMISAPT
Total Passed-through Michigan Department of Public Health	73.757	02011111111
Passed-through Michigan Department of Community Health:		
Block Grants for Community Mental Health Services:		
Respite	93.958	03-B1MICMHS-02
Respite	93.958	04B1MICMHS
Wraparound	93.958	03-B1MICMHS-02
Wraparound	93.958	04B1MICMHS
Transitional Youth Services	93.958	03-B1MICMHS-02
Transitional Youth Services	93.958	04B1MICMHS
Juvenile Justice	93.958	03-B1MICMHS-02
Juvenile Justice	93.958	04B1MICMHS
Improved Case Management for Adults with Mental Illness	93.958	04B1MICMHS
Life Skills in Recovery	93.958	04B1MICMHS
Total Image and More Than an Illness	93.958	04B1MICMHS
Case Management/Medical Advocacy	93.958	04B1MICMHS
Jail Diversion	93.958	04B1MICMHS
Jail Diversion	93.958	04B1MICMHS
JIMHO Equipment	93.958	04B1MICMHS
JIMHO Equipment	93.958	04B1MICMHS
JIMHO Project Stay	93.958	04B1MICMHS

Schedule of Expenditures of Federal Awards. Year Ended September 30, 2005

- Marie	Approved Award/ Grant Amount	Accrued (Deferred) Revenue, Beginning of Year	Federal Revenue Received	Other Revenue Recognized	Federal Expenditures		Accrued (Deferred) Revenue, End of Year	Federal Revenue Recognized in Basic Financial Statements
\$	619,423	\$ 52,785	\$ 52,785	\$ -	\$ -	\$ -	\$ -	\$ -
	52,535		45,060	-	46,694	15,564	1,634	46,694
	671,958	52,785	97,845	-	46,694	15,564	1,634	46,694
	13,291 18,704	4,422 -	4,422 18,074	:	- 18,074	- -		- 18,074
	87,461	29,562	29,562	-	_	_	_	_
	87,461	-	64,020	-	85,714	-	21,694	85,714
	69,000	21,171	21,171	-	-	-	-	-
	69,000	-	40,414	-	69,000	-	28,586	69,000
	167,800	36,046	36,046	-	_	_	_	_
	174,092	-	107,610	-	174,092	-	66,482	174,092
	72,615	18,633	18,633		•		•	,
	72,015	10,055	10,033	_	-	-	-	-
	20,000	8,445	8,445	-	-	-	-	-
	6,470	2,662	2,662	-	-	-	-	-
	28,000	6,648	6,648	-	-	-	-	-
	63,470	15,794	15,794	-	_	_	-	-
	63,470	-	41,716	-	56,007	-	14,291	56,007
			•		•		,	,
	4,550	-	<u>-</u>	-	-	-	-	-
	7,030	-	4,196	-	7,030	-	2,834	7,030
	1,103	25	25		-			-
	953,517	143,408	419,438	-	409,917		133,887	409,917

See accompanying notes to Schedule of Expenditures of Federal Awards.

0 SMX0600233 0 SMX0600233
SMX060023
SMX 0600231
SMX 0600231
SMX 0600231
5 04MICCD
3
3
02-33001-
05-33001-
33

Schedule of Expenditures of Federal Awards. Year Ended September 30, 2005.

	Approved Award/ Grant Amount	Accrued (Deferred) Revenue, Beginning of Year	Federal Revenue Received	Other Revenue Recognized	Federal Expenditures	Other Expenditures	Accrued (Deferred) Revenue, End of Year	Federal Revenue Recognized in Basic Financial Statements
\$	76,500 75,000	\$ 9,326	\$ 9,326 70,655	\$ -	\$ - 72,000	\$ -	\$ - 1,345	\$ - 72,000
			,		72,000		1,575	72,000
	58,200 60,000	21,943	21,943 43,473	25,273	56,731	25,273	13,258	- 56,731
	00,000	-	43,473	23,213	30,/31	23,273	13,230	30,731
	6,250	-	-	-	6,250	-	6,250	6,250
	275,950	31,269	145,397	25,273	134,981	25,273	20,853	134,981
	70,997	-	59,491		70,997		11,506	70,997
	330,915	65,697	65,697	-	-	_	_	_
	330,915	-	160,226	62,963	188,890	62,963	28,664	188,890
	661,830	65,697	225,923	62,963	188,890	62,963	28,664	188,890
	1,962,294	240,374	850,249	88,236	804,785	88,236	194,910	804,785
-	52,000 52,000	4,442	4,442 57,105	-	59,999	<u>-</u>	2,894	- 59,999
	104,000	4,442	61,547	-	59,999	-	2,894	59,999
	2,738,252	297,601	1,009,641	88,236	911,478	103,800	199,438	911,478

See accompanying notes to Schedule of Expenditures of Federal Awards.

umber	Number
14.235	MI28B20006R
14.235	MI28B20006R

•

Schedule of Expenditures of Federal Awards Year Ended September 30, 2005

 Approved Award/ Grant Amount	(Deferred) Revenue, Beginning of Year		Federal Revenue Received	Re	Other Revenue ecognized	Ex	Federal penditures	Exp	Other penditures	:	Accrued (Deferred) Revenue, End of Year	Federal Revenue Recognized in Basic Financial Statements
\$ 49,500 49,875	\$ 13,914	\$	13,914 29,793	\$	-	\$	- 39,558	\$	- .	\$	- 9,765	\$ - 39,558
 99,375	13,914		43,707		-		39,558		_		9,765	39,558
\$ 2,837,627	\$ 311,515	\$1	,053,348	\$	88,236	\$	951,036	\$	103,800	\$	209,203	\$ 951,036

See accompanying notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

1. **Summary of Significant Accounting Policies**

The accounting policies of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Authority's significant accounting policies for its federal grants:

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations: therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Property and Equipment

Property and equipment costs are charged to program costs as incurred.

2. **Description of Grant Programs**

Block Grant for Prevention and Treatment of Substance Abuse - This program provides services to substance abusers. Services include outpatient counseling, correctional assessment and treatment, residential, older adult substance abuse prevention and treatment, dual diagnosis, and recovery. Funding is provided to the Authority through agreements with the Mid-South Substance Abuse Commission.

Block Grants for Community Mental Health Services:

Respite - The purpose of this program is to provide children respite services. Funding is provided through agreements with the Michigan Department of Community Health.

Wraparound Coordination - This program provides services needed to reinforce family strengths and foster self-sufficiency for children with severe emotional disorders. Funding is provided through agreements with the Michigan Department of Community Health.

Notes to Schedule of Expenditures of Federal Awards

Block Grants for Community Mental Health Services (Continued):

Transitional Youth Services - This program provides a transitional bridge between children and adult mental health service systems, and provides linkages to educational, vocational, and other community services. Funding is provided through agreements with the Michigan Department of Community Health.

Juvenile Justice - This program provides funding to develop programs and training to local governments in planning, establishing, funding, operating, and evaluating juvenile delinquency programs. Funding is provided through agreements with the Michigan Department of Community Health.

Improved Case Management - This program provides funds for planning, developing, and training for improved management of client cases.

Life Skills in Recovery - This program provides funds to offer life skills training for adults with mental illness.

Total Image and More Than an Illness - This program provides funds to offer computer work and training as well as programs allowing for creative pursuits for mental health consumers.

Homeless Youth Outreach Expansion Project - This program provides funds for education and prevention services to runaway, homeless, and street youth. Funding is provided through agreements with the Michigan Department of Community Health.

Mental Health Services for the Homeless - This program provides intervention services to homeless individuals. Primary services include home-finding and long-term outreach counseling. Funding is provided through agreements with the Michigan Department of Community Health.

Medical Assistance Program - This program provides preadmission screenings for nursing home admissions and initial resident reviews. Funding is provided through agreements with the Michigan Department of Community Health.

Notes to Schedule of Expenditures of Federal Awards

Block Grants for Community Mental Health Services (Concluded):

FIA Wraparound (Title IVE) - This program provides technical assistance and support to families with children at imminent risk of removal. Funding is provided by the Michigan Family Independence Agency.

Supportive Housing Program - This program promotes development of supportive housing and supportive services for individuals transitioning from homelessness. Funding is provided through agreements with the Office of Community Planning and Development.

Jail Diversion – This program promotes development of training for all criminal justice and aspects of jail diversion and expands knowledge in serious and persistent mental illness, emotional disturbance, and development disabilities.

JIMHO Equipment - This program purchases equipment to assist with the primary mentally ill individuals working within their own recovering plan.

McKinney Homeless Act – This program provides support services to individuals with mental illness who are homeless or at imminent risk of homelessness.

Childcare and Development Block Grant - The focus of this program is to provide childcare consultation to Clinton, Eaton, and Ingham Counties.

Summary of Auditors' Results and Schedule of Findings and Questioned Costs - Year Ended September 30, 2003

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:
Material weaknesses identified?

No

Reportable conditions identified that are not considered to be material weaknesses?

No (none reported)

Noncompliance material to financial statements noted?

No

Federal Awards

Internal control over major programs:
Material weaknesses identified?

No

Reportable conditions identified that are not considered to be material weaknesses?

No (none reported)

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

No

Identification of major programs:

CFDA Number Name of Federal Program or Cluster

93.958

Block Grants for Community Mental Health Services

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes

Section II = Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.



BDO Seidman, LLPAccountants and Consultants

211 East Water Street, Suite 300 Kalamazoo, Michigan 49007 Telephone: (269) 382-0170 Fax: (269) 345-1666

January 31, 2006

RECEIVED
DEPT. OF TREASURY

MAR 1 4 2006

LOCAL AUDIT & FINANCE DIV.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties 812 East Jolly Road, Suite 210 Lansing, Michigan 48910

Dear Members of the Board, Executive Director, and Finance Director:

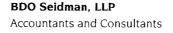
Professional standards require us to advise you of the following matters relating to our recently completed audit. The matters discussed herein are those that we have noted as of December 13, 2005, and we have not updated our procedures regarding these matters since that date to the current date.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated July 26, 2005, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or a guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of Community Mental Health Authority of Clinton, Eaton, and Ingham Counties' (the Authority) internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in the notes to the financial statements. The Authority adopted GASB Statement No. 40, a new accounting pronouncement, during the year ended September 30, 2005. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.





Community Mental Health Authority of Clinton, Eaton, and Ingham Counties January 31, 2006 Page Two

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Our audit procedures included inquiries about, and a review of, significant management judgments and accounting estimates.

Significant Audit Adjustments and Financial Statement Disclosures

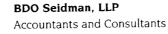
For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the Authority because they are not material to the current financial statements but might be potentially material to future financial statements. We made a few adjustments during the audit. We also proposed certain adjustments that were not made by management because they were not considered material.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.





Community Mental Health Authority of Clinton, Eaton, and Ingham Counties January 31, 2006 Page Three

Major Issues Discussed With Management Prior to Recurring Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered some delays in performing the audit due to the adjustments required during the audit relating to the year-end close out with MDCH. In all other respects, we had no difficulty in performing the audit.

Independence

Generally accepted government auditing standards require BDO Seidman, LLP, to be independent both in fact and appearance. We are not aware of any relationships between BDO Seidman and the Authority that, in our professional judgment, may reasonably be thought to bear on our independence. We confirm that as of December 13, 2005, and throughout the 2005 audit, we were independent accountants with respect to the Authority in accordance with the requirements of the standards.

Should you desire further information concerning these matters, Larry Oberst or Kristy Daniel will be happy to meet with you at your convenience.

This letter is solely for the internal use of the board and management of Community Mental Health Authority of Clinton, Eaton, and Ingham Counties and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

BDO SEIDMAN, LLP

Certified Public Accountants

BDO Seidman, LLA